

CITY OF HUDSON

**INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
SUPPLEMENTARY AND OTHER INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

JUNE 30, 2016

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City of Hudson

Officials

(Before January 2016)

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Kevin Launderville	Mayor	January 2016
Brad Ingamells	Mayor Pro Tem	January 2016
Mark Evers	Council Member	January 2016
Jerry Volker	Council Member	January 2016
Gail Bunz	Council Member	January 2018
Kate Wyatt	Council Member	January 2018
Chrissi Wiersma	City Clerk	Indefinite
Collen Damon	Deputy City Clerk	Indefinite
Heather Prendergast	City Attorney	Indefinite

(After January 2016)

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
George Wessel	Mayor	January 2018
Gail Bunz	Mayor Pro Tem	January 2018
Kate Wyatt	Council Member	January 2018
Brenda Engel	Council Member	January 2020
Matt Reisetter	Council Member	January 2020
Scott Staebell	Council Member	January 2020
Chrissi Wiersma	City Clerk	Indefinite
Collen Damon	Deputy City Clerk	Indefinite
Heather Prendergast	City Attorney	Indefinite

City of Hudson

RFSW Ridihalgh Fuelling Snitker Weber & Co.

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Independent Auditor's Report

To the Honorable Mayor and Members of the City Council:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Hudson, Iowa, as of and for the year ended June 30, 2016, and the related Notes to the Financial Statements, which collectively comprise the City's basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash basis of accounting described in Note 1. This includes determining the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and

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the aggregate remaining fund information of the City of Hudson as of June 30, 2016, and the respective changes in its cash basis financial position for the year then ended in accordance with the basis of accounting described in Note 1.

Basis of Accounting

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than U. S. generally accepted accounting principles. Our opinions are not modified with respect to this matter.

Other Matters

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Hudson's basic financial statements. We previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the eleven years ended June 30, 2015 (which are not presented herein) and expressed unmodified opinions on those financial statements which were prepared on the basis of cash receipts and disbursements. The supplementary information included in Schedules 1 through 6, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The other information, Management's Discussion and Analysis, the Budgetary Comparison Information, The Schedule of the City's Proportionate Share of the Net Pension Liability and the Schedule of City Contributions on pages 7 through 12 and 32 through 38, has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated January 3, 2017 on our consideration of the City of Hudson's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City of Hudson's internal control over financial reporting and compliance.

Ridihalgh, Fuelling, Snitker, Weber & Co., P.C.

Ridihalgh, Fuelling, Snitker, Weber & Co., P.C.

January 3, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Hudson provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2016. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2016 FINANCIAL HIGHLIGHTS

- The City's total receipts for governmental activities increased approximately \$39,992 over fiscal year 2015. The total cost of all governmental activities programs and services increased approximately \$852,257. The decrease in receipts was primarily the result of receiving increased TIF proceeds of \$50,580 in 2016.
- The City's governmental activities cash balance at June 30, 2016 increased approximately \$1,403,748, from June 30, 2015.
- The cost of all governmental activities this year was approximately \$3,569,404 compared to approximately \$2,717,147 last year. The amount taxpayers ultimately financed for these activities was approximately \$2,877,047 because some of the cost was paid by those directly benefited from the programs (\$62,290) or by other governments and organizations which subsidized certain programs with grants, contributions and restricted interest (\$630,067).

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Cash Basis Statement of Activities and Net Position. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Other Information further explains and supports the financial statements with a comparison of the City's budget for the year and the City's proportionate share of the net pension liability and related contributions.

Supplementary Information provides detailed information about the non-major governmental funds and the City's indebtedness.

BASIS OF ACCOUNTING

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, readers should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Cash Basis Statement of Activities and Net Position reports information which helps answer this question.

The Cash Basis Statement of Activities and Net Position presents the City's net position. Over time, increases or decreases in the City's net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Cash Basis Statement of Activities and Net Position is divided into two kinds of activities:

- Governmental Activities include public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the waterworks and the sanitary sewer system. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

1. Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax, Tax Increment Financing and Local Option Sales Tax, 3) the Debt Service Fund and 4) the Capital Project Funds. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statement for governmental funds is a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

2. Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains five Enterprise Funds to provide separate information for the Water, Sewer, Electric, Garbage and Storm Water Funds, considered to be major funds of the City.

The required financial statement for proprietary funds is a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from a year ago, from \$1,384,360 to \$2,788,109. The analysis that follows focuses on the changes in cash basis net position of governmental activities.

Changes in Cash Basis Net Position of Governmental Activities		
	Year ended June 30,	
	2016	2015
Receipts:		
Program Receipts		
Charges for service	62,290	131,137
Operating grants, contributions and restricted interest	569,988	320,791
Capital grants, contributions and restricted interest	60,079	54,000
General Receipts		
Property and other city tax	1,148,128	1,094,450
Tax increment financing	136,952	86,372
Local option sales tax	277,588	278,533
Unrestricted interest on investments	33,460	31,081
Bond proceeds	2,645,699	0
Other general receipts	49,589	301,716
Total receipts	<u>4,983,773</u>	<u>2,298,080</u>
Disbursements:		
Public safety	605,518	442,862
Public works	324,496	297,465
Health and social services	4,400	2,200
Culture and recreation	334,502	308,135
Community and economic development	83,146	69,772
General government	421,041	377,813
Debt service	441,130	432,648
Capital projects	<u>1,355,171</u>	<u>785,252</u>
Total disbursements	<u>3,569,404</u>	<u>2,717,147</u>
Change in cash basis net position before transfers	1,414,370	(419,067)
Transfers, net	<u>(10,620)</u>	<u>(410,956)</u>
Change in cash basis net position	(1,403,750)	(830,023)
Cash basis net position beginning of year	<u>1,384,360</u>	<u>2,214,383</u>
Cash basis net position end of year	<u><u>2,788,110</u></u>	<u><u>1,384,360</u></u>

The City's total receipts for governmental activities were approximately \$4,291,416. The total cost of all programs and services was approximately \$3,569,404, with no new programs added this year. The increase in receipts was primarily the result of receiving note proceeds of \$2,645,699 in 2016. The cash basis position of the City's governmental activities increased approximately \$1,384,360 from June 30, 2016.

As shown in the Cash Basis Statement of Activities and Net Position, the amount taxpayers ultimately financed for these activities was approximately \$2,877,047 because some of the cost was paid by those directly benefited from the programs (\$62,290) or by other governments and organizations which subsidized certain programs with grants, contributions and restricted interest (\$630,067).

Changes in Cash Basis Net Position of Business Type Activities

	Year ended June 30,	
	2016	2015
Receipts:		
Program Receipts		
Charges for service		
Water	374,724	378,197
Sewer	308,664	318,574
Storm Water	37,416	41,565
Non-Major	143,119	155,412
General Receipts		
Miscellaneous	18,163	150
Unrestricted interest on investments	3,133	13
Total receipts	<u>885,219</u>	<u>893,911</u>
Disbursements:		
Water	292,570	282,128
Sewer	230,804	172,123
Storm Water	15,876	18,240
Non-Major	<u>149,274</u>	<u>124,013</u>
Total disbursements	<u>688,524</u>	<u>596,504</u>
Increase in cash basis net position before transfers	196,695	297,407
Transfers, net	<u>10,620</u>	<u>410,956</u>
Change in cash basis net position	207,315	708,363
Cash basis net position beginning of year	<u>639,587</u>	<u>(68,776)</u>
Cash basis net position end of year	<u>846,902</u>	<u>639,587</u>

Total business type activities receipts for the year were approximately \$885,219 compared to approximately \$893,911 last year.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Hudson completed the year, its governmental funds reported a combined fund balance of \$2,788,109, an increase of \$1,403,750,302 from last year's total of \$1,384,360. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance increased \$1,140,758 over the prior year to \$1,575,488. The increase is primarily due to bond proceeds and transfers in from other funds.
- The Debt Service Fund cash balance increased \$156,278 over the prior year to \$4,012.
- The Capital Project, Northern Tier Development Fund had a cash balance of \$456,592 at the end of the fiscal year, which represents an increase of \$456,592 from the prior year. This increase is due to only partial completion and payment for the project during the fiscal year.
- The Capital Project, Butterfield Lift Station Fund increased \$70,762 over the prior year to \$70,762. This increase is due to the project being started and completed, but not finalized during the fiscal year.
-

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance increased \$78,538 from the prior year to \$257,419.
- The Sewer Fund had a cash balance of \$246,505 at the end of the fiscal year, which represents an increase of \$104,264 from the prior year.
- The Storm Water Fund cash balance increased \$21,540 from the prior year to \$264,050.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget two times. The amendments were approved on November 9, 2015 and April 14, 2016. The amendment provided for additional disbursements in certain City departments. The City had sufficient cash balances to absorb these additional costs.

The City's receipts were \$1,985,189 less than budgeted. This was primarily due to less General Obligation Bonds being issued than anticipated for the fiscal year.

Total disbursements were \$2,474,972 less than the amended budget. Capital projects disbursements were \$1,565,169 less than budgeted and business type activities disbursements were \$498,550 less budgeted primarily due to major capital project disbursements less than anticipated.

During the year ended June 30, 2016, disbursements exceeded the amount budgeted in the debt service function.

DEBT ADMINISTRATION

At June 30, 2016, the City had \$5,537,197 of outstanding notes and bonds, compared to \$4,906,359 last year, as shown below.

Outstanding Debt at Year-End		
	Year ended June 30,	
	2016	2015
General obligation capital loan notes	5,510,000	4,870,000
Bank Loan	27,197	36,359
Total	<u>5,537,197</u>	<u>4,906,359</u>

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$5,510,000 is significantly below its constitutional debt limit of \$7,175,000.

The City issued \$935,000 of general obligation capital loan notes after fiscal year-end to pay costs of constructing street, water, sanitary sewer, storm sewer and water improvements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City of Hudson's elected, appointed officials and department heads considered many factors when setting the fiscal year 2017 budget, tax rates and fees charged for various City activities.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City Clerk's Office, 525 Jefferson Street, Hudson, Iowa, 50643.

Basic Financial Statements

City of Hudson

Cash Basis Statement of Activities and Net Position

As of and for the year ended June 30, 2016

Functions / Programs:	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions, and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Governmental activities:				
Public safety	\$ 605,518	41,611	200,604	-
Public works	324,496	-	304,862	-
Health & Social Services	4,400	-	-	-
Culture and recreation	334,502	20,679	14,108	-
Community and economic development	83,146	-	2,662	-
General government	421,041	-	46,220	-
Debt service	441,130	-	1,532	-
Capital projects	1,355,171	-	-	60,079
Total governmental activities	3,569,404	62,290	569,988	60,079
Business type activities:				
Water	292,570	374,724	-	-
Sewer	230,804	308,664	-	-
Electric	-	-	-	-
Garbage	149,274	143,119	-	-
Storm Water	15,876	37,416	-	-
Total business type activities	688,524	863,923	-	-
Total	\$ 4,257,928	926,213	569,988	60,079
General Receipts:				
Property tax levied for:				
General purposes				
Debt service				
Tax increment financing				
Local option sales tax				
Unrestricted interest on investments				
Bond proceeds, net				
Miscellaneous				
Transfers				
Total general receipts and transfers				
Change in cash basis net position				
Cash basis net position beginning of year				
Cash basis net position end of year				
Cash Basis Net Position				
Restricted:				
Expendable:				
Debt service				
Streets				
Local Option Sales Tax				
Capital Projects				
Other purposes				
Unrestricted				
Total cash basis net position				

See notes to financial statements

Exhibit A

Net (Disbursements) Receipts and Changes in Cash Basis Net Position

Governmental Activities	Business Type Activities	Total
(363,303)	-	(363,303)
(19,634)	-	(19,634)
(4,400)	-	(4,400)
(299,715)	-	(299,715)
(80,484)	-	(80,484)
(374,821)	-	(374,821)
(439,598)	-	(439,598)
(1,295,092)	-	(1,295,092)
(2,877,047)	-	(2,877,047)
-	82,154	82,154
-	77,860	77,860
-	-	-
-	(6,155)	(6,155)
-	21,540	21,540
-	175,399	175,399
(2,877,047)	175,399	(2,701,648)
1,060,093	-	1,060,093
88,035	-	88,035
136,952	-	136,952
277,588	-	277,588
33,459	3,133	36,592
2,645,699	-	2,645,699
49,589	18,163	67,752
(10,620)	10,620	-
4,280,795	31,916	4,312,711
1,403,748	207,315	1,611,063
1,384,360	639,587	2,023,947
\$ 2,788,108	846,902	3,635,010
\$ 4,012	-	4,012
527,353	-	527,353
173,075	-	173,075
93,617	-	93,617
414,563	-	414,563
1,575,488	846,902	2,422,390
\$ 2,788,108	846,902	3,635,010

City of Hudson

Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Governmental Funds

As of and for the year ended June 30, 2016

	General	Debt Service	C.P. Northern Tier Development
Receipts:			
Property tax	\$ 810,674	88,035	-
Other city tax	-	-	-
Tax Increment Financing	-	-	-
Licenses and permits	52,796	-	-
Use of money and property	28,629	-	-
Intergovernmental	229,087	1,532	40,615
Charges for service	62,290	-	-
Miscellaneous	47,213	-	-
Total receipts	1,230,689	89,567	40,615
Disbursements:			
Operating:			
Public safety	569,393	-	-
Public works	242,572	-	-
Health & Social Services	4,400	-	-
Culture and recreation	311,162	-	-
Community and economic development	37,840	-	-
General government	406,420	-	-
Debt service	11,000	430,130	-
Capital projects	-	-	105,103
Total disbursements	1,582,787	430,130	105,103
Excess of receipts over disbursements	(352,098)	(340,563)	(64,488)
Other financing sources (uses):			
Bond Proceeds	346,939	-	710,829
Operating transfers in	1,171,361	496,841	-
Operating transfers (out)	(25,444)	-	(189,749)
Total other financing sources (uses)	1,492,856	496,841	521,080
Change in cash balances	1,140,758	156,278	456,592
Cash balances beginning of year	434,730	(152,266)	-
Cash balances end of year	\$ 1,575,488	4,012	456,592
Cash Basis Fund Balances			
Restricted for:			
Debt service	\$ -	4,012	-
Streets	-	-	456,592
Local Option Sales Tax	-	-	-
Capital Projects	-	-	-
Other purposes	-	-	-
Unassigned	1,575,488	-	-
Total cash basis fund balances	\$ 1,575,488	4,012	456,592

See notes to financial statements

C.P. Butterfield Lift Station	Other Nonmajor Governmental Funds	Total
-	249,419	1,148,128
-	277,588	277,588
-	136,952	136,952
-	6,000	58,796
-	4,831	33,460
-	300,035	571,269
-	-	62,290
-	2,376	49,589
-	977,201	2,338,072
-	36,125	605,518
-	81,924	324,496
-	-	4,400
-	23,340	334,502
-	45,306	83,146
-	14,621	421,041
-	-	441,130
1,123,141	126,927	1,355,171
1,123,141	328,243	3,569,404
(1,123,141)	648,958	(1,231,332)
1,245,000	342,931	2,645,699
-	252,704	1,920,906
(51,098)	(1,665,235)	(1,931,526)
1,193,902	(1,069,600)	2,635,079
70,761	(420,642)	1,403,747
-	1,101,897	1,384,360
70,761	681,255	2,788,108
-	-	4,012
70,761	-	527,353
-	173,075	173,075
-	93,617	93,617
-	414,563	414,563
-	-	1,575,488
70,761	681,255	2,788,108

City of Hudson

Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Proprietary Funds

As of and for the year ended June 30, 2016

	Water	Sewer	Electric
Operating receipts:			
Use of money and property	\$ 1,539	1,594	-
Charges for service	374,724	308,664	-
Miscellaneous	9,035	-	-
Total operating receipts	385,298	310,258	-
Operating disbursements:			
Business type activities	292,570	230,804	-
Total operating disbursements	292,570	230,804	-
Excess (deficiency) of operating receipts over (under) operating disbursements	92,728	79,454	-
Other financing sources(uses):			
Transfers in	59,119	24,809	-
Transfers (out)	(73,308)	-	-
Total other financing soources	(14,189)	24,809	-
Change in cash balances	78,539	104,263	-
Cash balances beginning of year	178,881	142,241	16,503
Cash balances end of year	\$ 257,420	246,504	16,503
Cash Basis Fund Balances			
Committed	\$ 257,420	246,504	-
Assigned	-	-	16,503
Total cash basis fund balances	\$ 257,420	246,504	16,503

See notes to financial statements

Garbage	Storm Water	Total
-	-	3,133
143,119	37,416	863,923
9,128	-	18,163
152,247	37,416	885,219
149,274	15,876	688,524
149,274	15,876	688,524
2,973	21,540	196,695
-	-	83,928
-	-	(73,308)
-	-	10,620
2,973	21,540	207,315
59,453	242,509	639,587
62,426	264,049	846,902
62,426	264,049	830,399
-	-	16,503
62,426	264,049	846,902

City of Hudson

Notes to Financial Statements

June 30, 2016

(1) Summary of Significant Accounting Policies

The City of Hudson is a political subdivision of the State of Iowa located in Black Hawk County. It was first incorporated in 1893 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, health and social services, culture and recreation, community and economic development, and general government services. The City also provides water, sewer, and solid waste utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Hudson has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City.

Discretely Presented Component Unit

The Hudson Municipal Electric Utility, established under Chapter 388 of the Code of Iowa, is a legally separate entity, but has the potential to provide specific benefits to or impose specific burdens on the City. The Utility is governed by a five member board appointed by the Mayor and approved by the Council. In accordance with criteria set forth by the Governmental Accounting Standards Board, the Utility meets the definition of a component unit which should be discretely presented. Condensed financial information presented in Note 13 is unaudited and was also prepared on the basis of cash receipts and disbursements.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The City is represented on the Black Hawk County Emergency Management Board, Black Hawk Conference Board, Black Hawk County Solid Waste Management Commission, Iowa League of Cities, Iowa Municipal Finance Association (IMFOA), Iowa Association of Municipal Utilities (IAMU), Iowa Northland Regional Council of Governments (INRCOG), Iowa Emergency Medical Service Association, Black Hawk County Fire Fighters Association, Grundy County Fire Fighters Association, NEIA Regional Hazmat Agreement, Black Hawk County E911 Board, Tri-County Drug Enforcement Task Force, Black Hawk County REAP Commission, and Black Hawk County Metropolitan Area Transportation Board and Technical Committee.

B. Basis of Presentation

Government-wide Financial Statements - The Cash Basis Statement of Activities and Net Position reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Cash Basis Statement of Activities and Net Position presents the City's non-fiduciary net position. Net position is reported in the following categories/components:

Restricted net position results when constraints placed on the use of cash balances are either externally imposed or are imposed by law through constitutional provisions or enabling legislation. Enabling legislation did not result in any restricted net position.

Unrestricted net position consists of cash balances not meeting the definition of the preceding category. Unrestricted net position is often subject to constraints imposed by management which can be removed or modified.

The Cash Basis Statement of Activities and Net Position demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements – Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as non-major governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts from general and emergency levies and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs not paid from other funds.

The Debt Service Fund is used to account for property tax and other receipts to be used for the payment of interest and principal on the City's long term debt.

Capital Projects:

The Northern Tier Development Fund is utilized to account for the revenues and disbursements for the Northern Tier Development project.

The Butterfield Lift Station Fund is utilized to account for the revenues and disbursements for the Butterfield Lift Station project.

The City reports the following major proprietary funds:

The Enterprise Sewer Fund accounts for the operation and maintenance of the City's waste water treatment and sanitary sewer system.

The Enterprise Water Fund accounts for the operation and maintenance of the City's water system.

The Storm Water Fund accounts for the operation and maintenance of the City's solid waste operations.

C. Measurement Focus and Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net positions available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

When a disbursement in governmental funds can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the disbursement toward restricted fund balance and then to less-restrictive classifications-committed, assigned and then unassigned fund balances.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Governmental Cash Basis Fund Balances

In the governmental fund financial statements, cash basis fund balances are classified as follows:

Nonspendable - Amounts which cannot be spent because they are legally or contractually required to be maintained intact.

Restricted - Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors or state, or federal laws or imposed by law through constitutional provisions or enabling legislation.

Assigned - Amounts the Council intends to use for specific purposes.

Unassigned - All amounts not included in other spendable classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information. During the year ended June 30, 2016 the City exceeded the budgeted amount in the debt service function.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2016 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

As of June 30, 2016, the City had no investments, as all ending fund balances were in the form of certificates of deposit, savings accounts and checking accounts.

Interest rate risk—The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the City.

(3) Bonds and Notes Payable

Annual debt service requirements to maturity of the General Obligation Capital Loan Notes are as follows:

Year Ending June	General Obligation Capital Loan Notes	
	<u>Principal</u>	<u>Interest</u>
2017	\$ 335,000	220,844
2018	590,000	189,068
2019	595,000	178,108
2020	610,000	166,208
2021	610,000	152,913
2022-2026	3,300,000	520,410
2027-2031	<u>1,135,000</u>	<u>112,550</u>
	<u>\$ 7,175,000</u>	<u>1,540,099</u>

General Obligation Corporate Purpose Bonds:

The City issued \$2,600,000 in General Obligation Corporate Purpose Bonds dated December 30, 2015 with variable interest ranging from 2.00% to 3.00%. The bonds were issued for the purpose of financing various infrastructure improvements, including those to the City's streets, sidewalks, sanitary sewer, and water systems.

Interest on the bonds is payable June 1 and December 1 each year beginning December 1, 2016. Principal payments are due on June 1 of each year beginning June 1, 2017. The City paid no interest or principal during the year ended June 30, 2016. Balance at June 30, 2016 was \$2,600,000.

General Obligation Refunding Bonds:

The City issued \$935,000 in General Obligation Corporate Refunding Bonds dated June 1, 2013 with variable interest ranging from 0.75% to 2.50%. The bonds were issued for the purpose of refunding series 2006 Water Revenue Capital Note, series 2013 Sewer Revenue Capital Note and series 2010 Water Revenue Loan.

Interest on the bonds is payable June 1 and December 1 each year beginning December 1, 2013. Principal payments are due on June 1 of each year beginning June 1, 2015. The City paid \$17,970 in interest and \$70,000 in principal during the year ended June 30, 2016. Balance at June 30, 2015 was \$725,000.

General Obligation Corporate Purpose and Refunding Bonds:

The City issued \$4,815,000 in General Obligation Corporate Purpose and Refunding Bonds, dated September 15, 2011, with variable interest ranging from 0.35% to 4.00%. The notes were issued for the purpose of advance refunding of General Obligation Capital Loan Notes dated June 1, 2006 and to finance various improvements, including those to the city's streets, sidewalks, and sewer and water systems.

- a. Interest on the bonds is payable on June 1 and December 1 each year beginning June 1, 2012. Principal payments are due on June 1 of each year beginning June 1, 2012.
- b. The notes are subject to prepayment at the option of the Issuer; in each of the years 2020 through 2031 inclusive, prior to and in any order of maturity on June 30, 2019, or on any date thereafter upon terms of par plus interest to date of call.
- c. The bonds maturing June 1, 2027 and 2031 are subject to Mandatory Sinking Fund Redemption, in part, at 100% of the principal amount to be redeemed plus interest accrued to the date of redemption. Thus the 2027 \$490,000 Term Bond will require a payment of \$330,000 plus interest on June 1, 2026 and the remaining \$160,000 plus interest on June 1, 2027. The payments on the 2031 \$690,000 Term Bond is shown below:

The City paid \$115,910 in interest and \$225,000 in principal during year ended June 30, 2016. Balance at June 30, 2016 was \$3,850,000.

Other Notes Payable

There is a note payable to BankIowa of Waterloo, Iowa dated March 11, 2015 with an original balance of \$47,258. Interest rate is 3.950%. There are fifty-nine payments of \$869.26 and one final payment of \$982.51 due on March 15, 2019 scheduled. The borrowing was used to purchase a John Deere #4720 Compact Utility Tractor, a John Deere #400CX Loader and a John Deere #96107 Pro Sno Blade. The City paid \$9,162 in principal and \$1,269 in interest during year ended June 30, 2016. Balance at June 30, 2016 was \$27,197.

(4) Pension Plan

Plan Description - IPERS membership is mandatory for employees of the City, except for those covered by another retirement system. Employees of the City are provided with pensions through a cost-sharing multiple employer defined benefit pension plan administered by Iowa Public Employees' Retirement System (IPERS). IPERS issues a stand-alone financial report which is available to the public by mail at 7401 Register Drive P.O. Box 9117, Des Moines, Iowa 50306-9117 or at www.ipers.org.

IPERS benefits are established under Iowa Code chapter 97B and the administrative rules thereunder. Chapter 97B and the administrative rules are the official plan documents. The following brief description is provided for general informational purposes only. Refer to the plan documents for more information.

Pension Benefits – A regular member may retire at normal retirement age and receive monthly benefits without an early-retirement reduction. Normal retirement age is age 65, any time after reaching age 62 with 20 or more years of covered employment, or when the member's years of service plus the member's age at the last birthday equals or exceeds 88, whichever comes first. These qualifications must be met on the member's first month of entitlement to benefits. Members cannot begin receiving retirement benefits before age 55. The formula used to calculate a Regular member's monthly IPERS benefit includes:

- A multiplier (based on years of service).

- The member's highest five-year average salary, except members with service before June 30, 2012 will use the highest three-year average salary as of that date if it is greater than the highest five-year average salary.

Protection occupation members may retire at normal retirement age, which is generally age 55. The formula used to calculate a protection occupation member's monthly IPERS benefit includes:

- 60% of average salary after completion of 22 years of service, plus an additional 1.5% of average salary for more than 22 years of service but not more than 30 years of service.
- The member's highest three-year average salary.

If a member retires before normal retirement age, the member's monthly retirement benefit will be permanently reduced by an early-retirement reduction. The early-retirement reduction is calculated differently for service earned before and after July 1, 2012. For service earned before July 1, 2012, the reduction is 0.25% for each month the member receives benefits before the member's earliest normal retirement age. For service earned on or after July 1, 2012, the reduction is 0.50% for each month the member receives benefits before age 65.

Generally, once a member selects a benefit option, a monthly benefit is calculated and remains the same for the rest of the member's lifetime. However, to combat the effects of inflation, retirees who began receiving benefits prior to July 1990 receive a guaranteed dividend with their regular November benefit payments.

Disability and Death Benefits - A vested member who is awarded federal Social Security disability or Railroad Retirement disability benefits is eligible to claim IPERS benefits regardless of age. Disability benefits are not reduced for early retirement. If a member dies before retirement, the member's beneficiary will receive a lifetime annuity or a lump-sum payment equal to the present actuarial value of the member's accrued benefit or calculated with a set formula, whichever is greater. When a member dies after retirement, death benefits depend on the benefit option the member selected at retirement.

Contributions - Contribution rates are established by IPERS following the annual actuarial valuation which applies IPERS' Contribution Rate Funding Policy and Actuarial Amortization Method. State statute limits the amount rates can increase or decrease each year to 1 percentage point. IPERS Contribution Rate Funding Policy requires the actuarial contribution rate be determined using the "entry age normal" actuarial cost method and the actuarial assumptions and methods approved by the IPERS Investment Board. The actuarial contribution rate covers normal cost plus the unfunded actuarial liability payment based on a 30-year amortization period. The payment to amortize the unfunded actuarial liability is determined as a level percentage of payroll based on the Actuarial Amortization Method adopted by the Investment Board.

In fiscal year 2016, pursuant to the required rate, Regular members contributed 5.95% of covered payroll and the City contributed 8.93% of covered payroll, for a total rate of 14.88%. Protection occupation members contributed 6.56% of covered payroll and the City contributed 9.84% of covered payroll, for a total rate of 16.40%.

The City's contributions to IPERS for the year ended June 30, 2016 totaled \$59,285.

Net Pension Liability, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - At June 30, 2016, the City reported a liability of \$301,449 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's share of contributions to IPERS relative to the contributions of all IPERS participating employers. At June 30, 2015, the City's proportion was 0.006102%, which was an increase of 0.000848% from its proportion measured as of June 30, 2014.

For the year ended June 30, 2016, the City's pension expense, deferred outflows of resources and deferred inflows of resources totaled \$35,806, \$89,476 and \$121,916, respectively.

There were no non-employer contributing entities to IPERS.

Actuarial Assumptions - The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, as follows:

Rate of inflation (effective June 30, 2014)	3.00% per annum.
Rates of salary increase (effective June 30, 2010)	4.00 to 17.00% average, including inflation. Rates vary by membership group.
Long-term investment rate of return (effective June 30, 1996)	7.50% compounded annually, net of investment expense, including inflation.
Wage growth (effective June 30, 1990)	4.00% per annum, based on 3.00% inflation and 1.00% real wage inflation.

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience studies with dates corresponding to those listed above.

Mortality rates were based on the RP-2000 Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA. The long-term expected rate of return on IPERS' investments was determined using a building-block method in which best-estimate ranges of expected future real rates (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

Asset Class	Asset Allocation	Long-Term Expected Real Rate of Return
Core plus fixed income	28%	2.04%
Domestic equity	24	6.29
International equity	16	6.75
Private equity/debt	11	11.32
Real estate	8	3.48
Credit opportunities	5	3.63
U.S. TIPS	5	1.91
Other real assets	2	6.24
Cash	1	(0.71)
Total	100%	

Discount Rate - The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed employee contributions will be made at the contractually required rate and contributions from the City will be made at contractually required rates, actuarially determined. Based on those assumptions, IPERS' fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on IPERS' investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.50%, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1% lower (6.50%) or 1% higher (8.50%) than the current rate.

	1% Decrease 6.5%	Discount Rate 7.5%	1% Increase 8.5%
City's proportionate share of the net pension liability	\$665,311	301,449	(5,503)

IPERS' Fiduciary Net Position - Detailed information about IPERS' fiduciary net position is available in the separately issued IPERS financial report which is available on IPERS' website at www.ipers.org.

5) Other Postemployment Benefits (OPEB)

Plan Description-The City operates a single-employee retiree benefit plan which provides medical/prescription drug benefits for employees, retirees and their spouses. There are 14 active and retired members in the plan. Participants must be age 55 or older at retirement.

The medical/ prescription drug benefits are provided through a fully-insured plan with Wellmark. Retirees under age 65 pay the same premium for the medical/ prescription drug benefits as active employees.

Funding Policy- The contribution requirements of plan members are established and may be amended by the City. The City currently finances the retiree benefit plan on a pay-as-you-go basis. Member monthly premiums for the City and plan members are based on age. All plan members premium are updated on June 1 of each year. For employees the City pays 90% and the plan member pays the remaining 10%. For family of employees, the City pays 50% and the employee pays the other 50%. Dental coverage for single employees is \$25, for employee and children coverage is \$47, and for employee with family dental coverage is \$51. Vision is paid entirely by employees. For the year ended June 30, 2016, the City paid \$120,791 including plan members contributions to the plan.

(6) Compensated Absences

City of Hudson employees accumulate a limited amount of earned but unused vacation and sick leave hours based on the length of employment. It is payable when used and may be accumulated at a rate of 10 days per year, to a maximum of 90 days. At the end of employment, any employee with accumulated sick leave will be paid 15% of their accumulated sick leave. Vacation is payable when used and accumulates based on an employee's anniversary date. Vacation may be accumulated past the anniversary date in isolated cases specifically approved by the City council. The City also has a policy of paying an employee up to 50% of the employee's accumulated vacation time, at the current pay rate. Employees are also able to convert unpaid overtime hours into comp time at time and one-half. These accumulations are not recognized as disbursements by the City until used or paid. At the end of employment, the City is liable for earned vacation, for comp time, and for accumulated sick leave. The City's approximate liability for earned vacation termination payments payable to employees at June 30, 2016 is \$25,386. The City's approximate liability for earned comp time payable to employees at June 30, 2016 is \$34,330. The City's approximate liability for sick leave at June 30, 2016 is \$10,215. This liability has been computed based on rates of pay in effect at June 30, 2016.

(7) Unemployment Fund

The City files reports with the Iowa Workforce Development (IWD), but pays nothing to IWD. Therefore the City is responsible for any unemployment claims. Beginning in the year ended June 30, 2012 the City created a fund to account for unemployment claims. During the year the City transferred \$2,781 from the General Fund to the Unemployment Fund. The City paid no claims for year ended June 30, 2016.

(8) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2016 is as follows:

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General Fund	Employee Benefits	\$ 461,637
	Road Use Tax	285,685
	Local Option Tax	175,878
	Hwy 63 & E Eldora	<u>248,161</u>
		1,171,361
Special Revenues		
TIF	Ardis Street	6,000
Unemployment Benefits	Local Option Tax	<u>2,781</u>
		8,781
Debt Service	General Fund	22,368
	Road Use Tax	72,503
	TIF	328,662
	Water	<u>73,308</u>
		496,841
Capital Projects:		
W. Eldora	General Fund	1,456
Butterfield Project	Northern Tier Development	189,749
Northern Business Park	Butterfield Lift Station	2,625
Ranchero Water	General Fund	1,620
2015 Norther Tier	Butterfield Lift Station	<u>48,473</u>
		243,923
Water	Employee Benefits	14,119
	Local Option Tax	<u>45,000</u>
		59,119
Sewer	Employee Benefits	12,809
	Local Option Tax	<u>12,000</u>
		24,809
Total Interfund Transfers		<u>\$2,004,834</u>

(9) Related Party Transactions

The City had business transactions between the City and City employees totaling \$5,785 during the year ended June 30, 2016.

(10) Risk Management

The City is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(11) Deficit Balance

The City had no deficit balances at June 30, 2016.

(12) Contracts and Commitment

The City had various construction projects ongoing throughout the year. Unpaid contract commitments as of June 30, 2016 totaled \$620,971. The balance on these contracts will be paid as work on the projects progress.

(13) Component Unit

The Hudson Municipal Electric Utility (HMEU) provides electric services to the City and its residents. HMEU does its own billings and collections for these services. As permitted by GASB Statement No. 34, the City has opted to present condensed financial information for this discretely presented component unit. The following is the condensed financial information for the Utility for the year ended June 30, 2016.

Condensed Statement of Receipts,
Disbursements and Changes in Cash Balances

Operating Receipts	\$ 1,581,467
Less: Operating Disbursements	<u>1,488,695</u>
Net Change in Cash Balances	92,772
Cash Balance Beginning of Year	<u>881,583</u>
Cash Balance End of Year	<u><u>\$ 975,355</u></u>

(14) Litigation

The City is pursuing the potential of a lawsuit against their former engineers regarding the engineering design and construction of the Butterfield Road Sewer Extension. The City has retained an expert engineer who has provided an opinion in regards to the design completed by the previously retained engineer on behalf of the City. The City attorney believes it is more probable than not that the City will be successful. If the City is not successful, it could cost an estimated \$50,000 to \$100,000 for additional hook-up expenses.

The overlay in concrete on Butterfield Road is currently failing and the City is actively pursuing a claim on the maintenance bond for the failure of the road. If the maintenance bond does not agree to pay for the cost of repair, estimated to be \$75,000 to \$100,000, the City may pursue a lawsuit to mitigate the cost.

(15) Subsequent Events

The City entered into a construction contract for the Jefferson Storm Sewer Project totaling \$24,862 in November 2016.

(16) New Accounting Pronouncement

The City of Hudson has adopted fair value guidance as set forth in Governmental Accounting Standards Board Statement No. 72, Fair Value Measurement and Application. The Statement sets forth guidance for determining and disclosing the fair value of assets and liabilities reported in the financial statements. Adoption of the guidance did not have a significant impact on amounts reported or disclosed in the financial statements.

Other Information

City of Hudson

Budgetary Comparison Schedule
of Receipts, Disbursements, and Changes in Balances -
Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Funds

Other Information

Year ended June 30, 2016

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds not Required to be Budgeted
Receipts:			
Property tax	\$ 1,148,128	-	-
Other city tax	277,588	-	-
Tax Increment Financing	136,952	-	-
Licenses and permits	58,796	-	-
Use of money and property	33,461	3,133	-
Intergovernmental	571,269	-	-
Charges for service	62,290	863,923	-
Miscellaneous	49,589	18,163	-
Total receipts	2,338,073	885,219	-
Disbursements:			
Public safety	605,518	-	-
Public works	324,496	-	-
Health & Social Services	4,400	-	-
Culture and recreation	334,502	-	-
Community and economic development	83,146	-	-
General government	421,041	-	-
Debt service	441,130	-	-
Capital projects	1,355,171	-	-
Business type activities	-	688,524	-
Total disbursements	3,569,404	688,524	-
Excess of receipts over disbursements	(1,231,331)	196,695	-
Other financing sources (uses), net	2,635,079	10,620	-
Excess of receipts and other financing sources over disbursements and other financing uses	1,403,748	207,315	-
Balances beginning of year	1,384,360	639,587	-
Balances end of year	\$ 2,788,108	846,902	-

See accompanying independent auditor's report.

Net	Budgeted Amounts		Final to Net Variance
	Original	Final	
1,148,128	1,140,928	1,140,928	7,200
277,588	282,393	606,393	(328,805)
136,952	143,613	149,613	(12,661)
58,796	44,698	44,698	14,098
36,594	22,600	22,600	13,994
571,269	348,562	556,062	15,207
926,213	976,880	976,880	(50,667)
67,752	42,345	54,405	13,347
3,223,292	3,002,019	3,551,579	(328,287)
605,518	555,675	655,675	50,157
324,496	303,354	347,354	22,858
4,400	5,000	5,000	600
334,502	344,178	351,678	17,176
83,146	98,602	104,602	21,456
421,041	420,392	744,392	323,351
441,130	-	416,784	(24,346)
1,355,171	-	2,920,340	1,565,169
688,524	1,187,074	1,187,074	498,550
4,257,928	2,914,275	6,732,899	2,474,971
(1,034,636)	87,744	(3,181,320)	2,146,684
2,645,699	-	4,688,961	(2,043,262)
1,611,063	87,744	1,507,641	103,422
2,023,947	2,808,157	3,583,113	(1,559,166)
3,635,010	2,895,901	5,090,754	(1,455,744)

City of Hudson

Notes to Other Information – Budgetary Reporting

June 30, 2016

The budgetary comparison is presented in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Internal Service Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, the budget was amended and increased budgeted disbursements by \$ 3,818,624. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2016, debt service disbursements exceeded the amount budgeted in the general government activities function.

City of Hudson
Schedule of the City's Proportionate Share of the Net Pension Liability

Iowa Public Employees' Retirement System
For the last Two Years*

Other Information

	2016	2015
City's proportion of the net pension liability	0.006102%	0.005254%
City's Proportionate share of the net pension liability	\$ 301,000	\$ 245,000
City's covered-employee payroll	\$ 638,000	\$ 661,000
City's Proportionate share of the net pension liability as a percentage of its covered-employee payroll	47.18%	37.07%
IPERS' net position as a percentage of the total pension liability	85.19%	87.61%

* In accordance with GASB Statement No. 68, the amounts presented for each fiscal year were determined as of June 30 of the preceding fiscal year.

See accompanying independent auditor's report.

City of Hudson
Schedule of City Contributions

Iowa Public Employees' Retirement System
Last 10 Fiscal Years
(In Thousands)

Other Information

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Statutorily required contribution	\$ 59	59	56	54
Contributions in relation to the statutorily required contribution	<u>(59)</u>	<u>(59)</u>	<u>(56)</u>	<u>(54)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>
City's covered-employee payroll	\$ 638	661	627	623
Contributions as a percentage of covered-employee payroll	9.25%	8.93%	8.93%	8.67%

See accompanying independent auditor's report.

<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
54	46	44	39	39	38
<u>(54)</u>	<u>(46)</u>	<u>(44)</u>	<u>(39)</u>	<u>(39)</u>	<u>(38)</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
669	662	662	614	645	661
8.07%	6.95%	6.65%	6.35%	6.05%	5.75%

City of Hudson

Notes to Other Information – Pension Liability

June 30, 2016

Changes of benefit terms:

Legislation passed in 2010 modified benefit terms for Regular members. The definition of final average salary changed from the highest three to the highest five years of covered wages. The vesting requirement changed from four years of service to seven years. The early retirement reduction increased from 3% per year measured from the member's first unreduced retirement age to a 6% reduction for each year of retirement before age 65.

Legislative action in 2008 transferred four groups – emergency medical service providers, county jailers, county attorney investigators, and National Guard installation security officers – from Regular membership to the protection occupation group for future service only.

Changes of assumptions:

The 2014 valuation implemented the following refinements as a result of a quadrennial experience study:

- Decreased the inflation assumption from 3.25% to 3.00 %
- Decreased the assumed rate of interest on member accounts from 4.00% to 3.75% per year.
- Adjusted male mortality rates for retirees in the Regular membership group.
- Reduced retirement rates for sheriffs and deputies between the ages of 55 and 64.
- Moved from an open 30 year amortization period to a closed 30 year amortization period for the UAL beginning June 30, 2014. Each year thereafter, changes in the UAL from plan experience will be amortized on a separate closed 20 year period.

The 2010 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted retiree mortality assumptions.
- Modified retirement rates to reflect fewer retirements.
- Lowered disability rates at most ages.
- Lowered employment termination rates.
- Generally increased the probability of terminating members receiving a deferred retirement benefit.
- Modified salary increase assumptions based on various service duration.

The 2007 valuation adjusted the application of the entry age normal cost method to better match projected contributions to the projected salary stream in the future years. It also included the one-year lag between the valuation date and the effective date of the annual actuarial contribution rate in the calculation of the UAL amortization payments.

Supplementary Information

City of Hudson

Schedule of Cash Receipts, Disbursements
and Changes in Cash Balances
Nonmajor Governmental Funds - Summary

As of and for the year ended June 30, 2016

	Special Revenue	Capital Projects	Total
Receipts:			
Property tax	\$ 249,419	-	249,419
Other city tax	277,588	-	277,588
Tax increment financing	136,952	-	136,952
Licenses & Permits	-	6,000	6,000
Use of money and property	4,831	-	4,831
Intergovernmental	286,571	13,464	300,035
Miscellaneous	-	2,376	2,376
Total receipts	955,361	21,840	977,201
Disbursements:			
Operating:			
Public safety	36,125	-	36,125
Public works	81,924	-	81,924
Culture and recreation	23,340	-	23,340
Community and economic development	45,306	-	45,306
General government	14,621	-	14,621
Capital projects	25,472	101,455	126,927
Total disbursements	226,788	101,455	328,243
Excess (deficiency) of receipts over (under) disbursements	728,573	(79,615)	648,958
Other financing sources:			
Bond proceeds	-	342,931	342,931
Operating transfers in	8,781	243,923	252,704
Operating transfers (out)	(1,411,074)	(254,161)	(1,665,235)
Change in cash balances	(673,720)	253,078	(420,642)
Cash balances beginning of year	1,261,358	(159,461)	1,101,897
Cash balances end of year	\$ 587,638	93,617	681,255
Cash Basis Fund Balances			
Restricted			
Local option sales tax	173,075	-	173,075
Capital projects	-	93,617	93,617
Other purposes	414,563	-	414,563
Total cash basis fund balances	\$ 587,638	93,617	681,255

See accompanying independent auditor's report

City of Hudson

Schedule of Cash Receipts, Disbursements
and Changes in Cash Balances
Nonmajor Governmental Funds - Special Revenue Funds

As of and for the year ended June 30, 2016

	Employee Benefits	Road Use	LOST
Receipts:			
Property tax	\$ 249,419	-	-
Other city tax	-	-	277,588
Tax increment financing	-	-	-
Use of money and property	-	-	2,236
Intergovernmental	4,563	282,008	-
Total receipts	253,982	282,008	279,824
Disbursements:			
Operating:			
Public safety	36,125	-	-
Public works	13,917	68,007	-
Culture and recreation	23,340	-	-
Community and economic development	2,537	-	-
General government	14,621	-	-
Capital projects	-	-	25,472
Total disbursements	90,540	68,007	25,472
Excess (deficiency) of receipts over (under) disbursements	163,442	214,001	254,352
Other financing sources:			
Operating transfers in	-	-	-
Operating transfers (out)	(488,565)	(358,188)	(235,659)
Change in cash balances	(325,123)	(144,187)	18,693
Cash balances beginning of year	354,025	144,187	154,382
Cash balances end of year	\$ 28,902	-	173,075
Cash Basis Fund Balances			
Restricted			
Local Option Sales Tax	\$ -	-	173,075
Other purposes	28,902	-	-
Total cash basis fund balances	\$ 28,902	-	173,075

See accompanying independent auditor's report

TIF	Economic Development	Building Condemnations	Unemployment Payments	Total
-	-	-	-	249,419
-	-	-	-	277,588
136,952	-	-	-	136,952
2,595	-	-	-	4,831
-	-	-	-	286,571
139,547	-	-	-	955,361
-	-	-	-	36,125
-	-	-	-	81,924
-	-	-	-	23,340
42,769	-	-	-	45,306
-	-	-	-	14,621
-	-	-	-	25,472
42,769	-	-	-	226,788
96,778	-	-	-	728,573
6,000	-	-	2,781	8,781
(328,662)	-	-	-	(1,411,074)
(225,884)	-	-	2,781	(673,720)
406,545	200,000	5,000	(2,781)	1,261,358
180,661	200,000	5,000	-	587,638
-	-	-	-	173,075
180,661	200,000	5,000	-	414,563
180,661	200,000	5,000	-	587,638

City of Hudson

Schedule of Cash Receipts, Disbursements
and Changes in Cash Balances
Nonmajor Governmental Funds - Capital Projects Funds

As of and for the year ended June 30, 2016

	W. Eldora Federal Grant	HWY 63 & E. Eldora	Northern Business Park	Ardis Street
Receipts:				
Use of money and property	-	-	-	6,000
Intergovernmental	-	13,464	-	-
Miscellaneous	-	-	-	-
Total receipts	-	13,464	-	6,000
Disbursements:				
Operating:				
Capital projects	-	2,970	-	-
Total disbursements	-	2,970	-	-
Excess (deficiency) of receipts over (under) disbursements	-	10,494	-	6,000
Other financing sources:				
Bond Proceeds	-	-	-	-
Operating transfers in	1,456	-	2,625	-
Operating transfers (out)	-	(248,161)	-	(6,000)
Change in cash balances	1,456	(237,667)	2,625	-
Cash balances beginning of year	(1,456)	237,667	(2,625)	-
Cash balances end of year	\$ -	-	-	-
Cash Basis Fund Balances				
Restricted				
Capital Projects	-	-	-	-
Total cash basis fund balances	\$ -	-	-	-

See accompanying independent auditor's report

Schedule 3

Butterfield Project	Ranchero Water Main	2015 Northern Tier	Phase I 63 Bike Trail	Total
-	-	-	-	6,000
-	-	-	-	13,464
-	-	-	2,376	2,376
-	-	-	2,376	21,840
14,570	75,156	-	8,759	101,455
14,570	75,156	-	8,759	101,455
(14,570)	(75,156)	-	(6,383)	(79,615)
242,931	-	-	100,000	342,931
189,749	1,620	48,473	-	243,923
-	-	-	-	(254,161)
418,110	(73,536)	48,473	93,617	253,078
(418,110)	73,536	(48,473)	-	(159,461)
-	-	-	93,617	93,617
-	-	-	93,617	93,617
-	-	-	93,617	93,617

City of Hudson
Schedule of Indebtedness
Year ended June 30, 2016

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General Obligation Bonds/Notes:			
Corporate Purpose & Refunding, Series 2011	June 1, 2011	0.5-4.00%	4,815,000
Refunding, Series 2013A	June 24, 2013	0.90-3.00%	935,000
Corporate Purpose, Series 2015	December 30, 2015	2.00-3.00%	2,600,000
Total			
Bank Notes:			
BankIowa Tractor Loan	March 11, 2014	3.95%	47,258
Total			

See accompanying independent auditor's report

Schedule 4

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
4,075,000	-	225,000	3,850,000	115,910
795,000	-	70,000	725,000	17,970
-	2,600,000	-	2,600,000	-
<u>\$ 4,870,000</u>	<u>2,600,000</u>	<u>295,000</u>	<u>7,175,000</u>	<u>133,880</u>
36,359	-	9,162	27,197	1,269
<u>\$ 36,359</u>	<u>-</u>	<u>9,162</u>	<u>27,197</u>	<u>1,269</u>

City of Hudson

Bond and Note Maturities

June 30, 2016

Year Ending June 30,	General Obligation Bonds and Notes						Total
	Capital Loan Note Series 2011		Capital Loan Note Series 2013A		Capital Loan Note Series 2015		
	June 1, 2011		June 24, 2013		December 30, 2015		
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	
2017	1.50%	\$ 265,000	1.60%	70,000	0.00%	-	335,000
2018	1.80%	280,000	1.60%	70,000	2.00%	240,000	590,000
2019	2.10%	280,000	1.60%	70,000	2.00%	245,000	595,000
2020	2.30%	295,000	2.30%	70,000	2.00%	245,000	610,000
2021	2.50%	290,000	2.30%	70,000	2.00%	250,000	610,000
2022	2.75%	300,000	2.30%	70,000	2.50%	255,000	625,000
2023	2.85%	310,000	3.00%	75,000	2.50%	260,000	645,000
2024	3.00%	320,000	3.00%	75,000	2.50%	265,000	660,000
2025	3.15%	330,000	3.00%	75,000	2.75%	275,000	680,000
2026	4.00%	330,000	3.00%	80,000	3.00%	280,000	690,000
2027	4.00%	160,000	-	-	3.00%	285,000	445,000
2028	4.00%	165,000	-	-	-	-	165,000
2029	4.00%	170,000	-	-	-	-	170,000
2030	4.00%	175,000	-	-	-	-	175,000
2031	4.00%	180,000	-	-	-	-	180,000
		<u>\$3,850,000</u>		<u>725,000</u>		<u>2,600,000</u>	<u>7,175,000</u>

BankIowa Loan		
Tractor		
March 11, 2014		
Year Ending June 30,	Interest Rates	Amount
2017	3.95%	9,530
2018	3.95%	10,757
2019	3.95%	6,910
		<u>\$ 27,197</u>

See accompanying independent auditor's report

City of Hudson

Schedule of Receipts by Source and Disbursements By Function
All Governmental Funds

For the Last Ten Years

	2016	2015	2014	2013	2012
Receipts:					
Property tax	\$ 1,148,128	1,094,450	918,582	869,695	807,128
Tax increment financing	136,952	86,372	83,749	83,686	85,072
Other city tax	277,588	278,533	292,538	275,678	288,484
Licenses and permits	58,796	61,499	81,857	96,641	98,309
Use of money and property	33,461	296,573	68,434	39,407	59,277
Intergovernmental	571,269	320,791	382,499	388,007	650,579
Charges for service	62,290	57,266	75,066	71,773	90,566
Miscellaneous	49,589	102,596	106,085	48,666	107,956
Total	\$ 2,338,073	2,298,080	2,008,810	1,873,553	2,187,371
Disbursements:					
Operating:					
Public safety	\$ 605,518	443,862	499,380	533,173	606,162
Public works	324,496	297,465	393,628	401,690	324,787
Health & Social Services	4,400	2,200	2,366	-	2,750
Culture and recreation	334,502	308,135	343,113	384,374	402,206
Community and economic development	83,146	69,772	37,388	66,861	52,982
General government	421,041	377,813	275,916	243,496	240,157
Debt service	441,130	432,648	68,876	121,053	200,988
Capital projects	1,355,171	785,252	1,409,890	731,035	2,653,824
Total	\$ 3,569,404	2,717,147	3,030,557	2,481,682	4,483,856

See accompanying independent auditor's report

Schedule 6

2011	2010	2009	2008	2007
767,740	735,485	702,182	664,085	663,057
89,587	85,291	85,849	83,541	53,445
255,398	260,965	256,879	252,649	224,717
63,266	47,850	39,445	43,283	37,024
36,051	116,637	109,803	87,998	114,536
369,220	339,158	304,243	329,042	288,862
71,704	61,605	65,139	63,575	41,355
55,207	24,788	26,476	76,147	32,389
<u>1,708,173</u>	<u>1,671,779</u>	<u>1,590,016</u>	<u>1,600,320</u>	<u>1,455,385</u>
466,753	390,220	733,212	407,123	408,563
420,462	339,263	325,640	332,346	960,408
3,000	3,000	3,045	3,000	4,500
362,891	319,378	306,881	310,679	314,752
46,994	43,225	44,230	46,921	601,328
192,430	245,411	240,505	241,598	227,196
200,388	199,338	203,338	206,939	106,938
289,216	80,341	-	383,001	-
<u>1,982,134</u>	<u>1,620,176</u>	<u>1,856,851</u>	<u>1,931,607</u>	<u>2,623,685</u>

**Independent Auditor's Report on Internal Control over Financial
Reporting and on Compliance and Other Matters Based on an
Audit of Financial Statements Performed in Accordance with
Government Auditing Standards**

RFSW Ridihalgh Fuelling Snitker Weber & Co.

C E R T I F I E D P U B L I C A C C O U N T A N T S

James R. Ridihalgh, CPA
Gene L. Fuelling, CPA
Donald A. Snitker, CPA
Donald A. Weber, CPA

Jeremy P. Lockard, CPA
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Brent A. Waters, CPA

Independent Auditor's Report

To the Honorable Mayor and Members of the City Council:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Hudson, Iowa, as of and for the year ended June 30, 2016, and the related Notes to the Financial Statements, which collectively comprise the City's basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash basis of accounting described in Note 1. This includes determining the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters which are required to be reported under Government Auditing Standards.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2016 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The City of Hudson's Responses to the Findings

The City's responses to the findings identified in our audit are described in the accompanying Schedule of Findings. The City's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Hudson during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.



Ridihalgh, Fuelling, Snitker, Weber & Co., P.C.

January 3, 2017

City of Hudson

Schedule of Findings

June 30, 2016

Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

- (A) Segregation of Duties – Management is responsible for establishing and maintaining internal control. A good system of internal control provides for adequate segregation of duties so no one individual handles a transaction from its inception to completion. In order to maintain proper internal control, duties should be segregated so that authorization, custody and recording of transactions are not under the control of the same employee. This segregation of duties helps prevent losses from employee error or dishonesty and maximizes the accuracy of the City's financial statements.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances. The City should utilize current personnel and officials to provide additional control through review of financial transactions, reconciliations and reports. Such reviews should be performed by independent persons and should be documented by the signature or initials of the reviewer and the date of the review.

Response – We will continue to review and monitor ways to improve segregation of duties.

Conclusion – Response acknowledged.

- (B) Preparation of Financial Statements - The City of Hudson, Iowa does not employ an accounting staff with the technical expertise to prepare its financial statements (including footnote disclosures) in conformity with accounting principles generally accepted in the United States of America; therefore, it relies on its auditors to prepare such statements.

Response – The City feels that having the auditors draft the financial statements and notes is a tolerable situation. Internal financial statements are prepared monthly for reporting and decision making purposes. The requirements and form of the audited statements are different than the internal needs and change occasionally. Given the size of the organization, it is helpful to rely on the expertise of the auditors to monitor those requirements.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

Findings Related to Required Statutory Reporting

- (1) Certified Budget – Disbursements during the year ended June 30, 2016 exceeded the amount budgeted in the debt service type activity function. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.” This appears to be due to employee oversight.

Recommendation – The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response – Being over budget was due to an oversight. The City’s office staff has been in transition and will be more aware of the budget going forward.

Conclusion – Response accepted.

- (2) Questionable Disbursements – We believe all disbursements met the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979.
- (3) Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- (4) Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

Name, Title, and Business Connection	Transaction Description	Amount
Mary Bucy, Library Director & Owner of Bucy Cleaning	Janitorial services	\$5,875

The transaction with the Library Director does not appear to represent a conflict of interest since it was entered into through competitive bidding.

- (5) Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- (6) City Council Minutes – No transactions were found that we believe should have been approved in Council Minutes but were not.

Minutes for the October 6, 2015 and April 25, 2016 City Council meetings were not printed and signed as required by Chapter 380.7 of the Code of Iowa.

Recommendation – The City should comply with Chapter 380.7 of the Code of Iowa and ensure all minutes are printed, signed and properly filed.

Response – The City’s office staff has been in transition and was not aware that special sessions needed to be published. We will ensure that all minutes are signed and published going forward.

Conclusion – Response accepted.

- (7) Deposits and Investments – We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy.
- (8) Payment of General Obligation Bonds – The City properly paid for its general obligation bonds out of the Debt Service fund.
- (9) Tax Increment Financing (TIF) – Chapter 403.19 of the Code of Iowa provides a municipality may certify loans, advances, indebtedness and bonds (indebtedness) to the County Auditor which qualify for reimbursement from incremental property tax. The County Auditor provides for the division of property tax to repay the certified indebtedness and provides available incremental property tax in subsequent fiscal years without further certification by the City until the amount of certified indebtedness is paid.

There were no instances of noncompliance noted.

- (10) Urban Renewal Annual Report – There were no instances of noncompliance with the Urban Renewal Annual Report noted.